

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-07 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 OES-03 INT-05

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C O N F I D E N T I A L CARACAS 380

E.O. 11652: GDS

TAGS: EIND VE

SUBJECT: EL TABLAZO SCANDAL - KELLOGG REPRESENTATIVES

VISIT VENEZUELA

REF: CARACAS 12431 CARACAS 12491

SUMMARY: THREE OFFICIALS OF M.W. KELLOGG CO., BESIEGED CONTRACTOR FOR CONSTRUCTION OF EL TABLAZO OLEFINS PLANT, CALLED ON EMBASSY TO BRING IT UP TO DATE ON COMPANY'S ACTIONS AND INTERPRETATION OF EVENTS. THEIR DISCUSSIONS WITH PETROCHEMICAL INSTITUTE'S DIRECTOR GENERAL ELICITED, AMONG OTHER THINGS, HIS OPINION THAT PRESIDENT PEREZ MAY SEEK LITIGATION AGAINST THE AMERICAN COMPANY NO MATTER WHAT THE MERITS OF GOVERNMENT'S COMPLAINTS "TO SET A PRECEDENT." (END SUMMARY)

1. MESSRS. TARNPOLL, DOWLING AND KOEHLER, (THE FORMER TWO ARE M.W. KELLOGG CO. VICE PRESIDENTS; MR. KOEHLER IS OLEFINS PLANT PROJECT MANAGER) REPORTED THAT THEY HAD MET WITH DIRECTOR GENERAL MONTANA OF INSTITUTO VENEZOLANO DE PETROQUIMICA (IVP) ON JANUARY 6. MEETING FOLLOWED SERIES OF UNANSWERED MESSAGES FROM HOUSTON HEADQUARTERS TO IVP SEEKING AUDIENCE AND PROPOSING
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AGENDA FOR DISCUSSION. THEY MAINTAINED THAT THEY HAD NOT, SINCE

IMBROGLIO BEGAN, RECEIVED A COMPLAINT OF ANY KIND FROM IVP OR ANY OTHER VENEZUELAN GOVERNMENT AGENCY CRITICIZING COMPANY'S PERFORMANCE. COMPANY'S KNOWLEDGE OF NATURE OF GRIEVANCE CONFINED TO WHAT COULD BE GLEANED FROM PRESS REPORTS.

2. OFFICIALS DESCRIBED MEETING WITH GEN. MONTANA AS CONGENIAL AND GENERAL'S ATTITUDE AS SYMPATHETIC. THEY POINTED OUT THAT KELLOGG IS IN DIFFICULT POSITION OF ATTEMPTING TO ANSWER UNARTICULATED COMPLAINTS BUT THAT IT WANTED TO RESOLVE ANY DISPUTE IN AMICABLE MANNER. A MEETING BETWEEN HIGH, RESPONSIBLE KELLOGG PERSONNEL AND THEIR COUNTERPARTS IN IVP OR OTHER VENEZUELAN AGENCY WAS PROPOSED FOR JANUARY 20 TO IRON OUT PROBLEM. THEY CONCEDED THAT IT IS POSSIBLE, INDEED ALMOST INEVITABLE, THAT IN CONSTRUCTING LARGE COMPLEX INSTALLATION SUCH AS OLEFINS PLANT SOME DIFFICULTIES BE ENCOUNTERED. CRITICAL ASPECT OF CONTRACTOR'S PERFORMANCE IS HOW IT THEN SETS ABOUT CORRECTING DEFICIENCIES. KELLOGG OFFICIAL SOUGHT IVP'S COOPERATION IN CORRECTING SEVERAL TROUBLING ASPECTS OF THE CASE. UNINFORMED AND IRRESPONSIBLE PRESS COVERAGE HAD CREATED AN EXTREMELY HOSTILE CLIMATE TOWARD THE AMERICAN COMPANY. GEN. MONTANA WAS SAID TO HAVE AGREED TO BE SCRUPULOUS ABOUT FUTURE STATEMENTS EMANATING FROM IVP AND ITS PERSONNEL BUT CAUTIONED THAT HE COULD NOT SPEAK FOR OTHER GOVERNMENT ELEMENTS INVOLVED IN CASE. KELLOGG STATED ITS WILLINGNESS TO ENTER DISCUSSIONS IMMEDIATELY TO RESOLVE DISPUTE. GEN. MONTANA REPORTEDLY SAID IT IS IMPOSSIBLE TO DO SO UNTIL VARIOUS INVESTIGATIONS AND REPORTS HAVE BEEN COMPLETED AND ANALYZED. HE STATED THAT COMPTROLLER'S REPORT TO THE CABINET WAS STILL UNDER CONSIDERATION. KELLOGG OFFICIAL THEN QUOTED GEN. MONTANA AS SAYING THAT NO MATTER WHAT THE CONCLUSIONS OF THE SUNDRY INVESTIGATORS, PRESIDENT PEREZ APPEARED DETERMINED TO BRING CHARGES AGAINST THE AMERICAN COMPANY "TO SET A PRECEDENT."

3. KELLOGG OFFICIALS ASKED GENERAL'S OPINION OF HOW THE ISSUE MAY ULTIMATELY BE RESOLVED. GEN. MONTANA PREDICTED THAT SOME KIND OF FORMAL ACTION WILL BE BROUGHT AGAINST KELLOGG. AFTER A POLITE PAUSE TO ALLOW EMOTIONS AND PUBLIC MEMORY TO DULL, A SETTLEMENT COULD BE REACHED. KELLOGG OFFICIAL COMMENTED TO EMBOFF THA WHILE THE SUGGESTED COURSE MIGHT SATISFY POLITICAL AND PROPAGANDISTIC PURPOSES OF GOVERNMENT, THE COMPANY HAD ITS REPUTATION TO CONSIDER AND MIGHT BE FORCED TO PURSUE CASE TO DECISION. CONFIDENTIAL

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4. GEN. MONTANA OFFERED TO ATTEMPT TO SCHEDULE A MEETING BETWEEN KELLOGG REPRESENTATIVES AND MINISTER OF MINES WHO HAS NOMINAL RESPONSIBILITY OVER IVP. KELLOGG REPRESENTATIVES ACCEPTED OFFER WITH ALACRITY AND STATED DESIRE TO MEET WITH AS MANY KEY GOVERNMENT OFFICIALS AS POSSIBLE TO MAKE KNOWN THEIR POSITION.

5. MESSRS. TARNPOLL, DOWLING AND KOEHLER OFFERED THEIR INTERPRE-

TATION OF KELLOGG'S PLIGHT. THE GOVERNMENT'S BEHAVIOR AND THE ENSUING HUE AND CRY IN THE PRESS BETRAY SOME OTHER MOTIVE THAN SIMPLY RESOLVING AN ENGINEERING AND CONSTRUCTION DISPUTE. THEY CITED THE NATIONALISTIC POSTURING WHICH ACCOMPANIED THE VENEZUELAN TAKEOVER OF THE IRON INDUSTRY AND THE RECENTLY ENACTED US FOREIGN TRADE LAW AS EVIDENCE OF RANKLING BETWEEN THE TWO COUNTRIES. THEY ALSO CONCEDED THAT EL TABLAZO IS A POTENTIAL EMBARRASSMENT TO PRESENT AND PREVIOUS ADMINISTRATIONS BECAUSE OF ITS INABILITY TO MEET DEADLINES, KEEP WITHIN BUDGETS AND STAY IN OPERATION. THE KELLOGG REPRESENTATIVES THOUGHT IT UNFORTUNATE THAT THE COMPANY MAY BE SEEN AS A MEANS TO ACHIEVE CERTAIN INTERNATIONAL AND DOMESTIC PURPOSES WIDELY DIVORCED FROM THE REALITIES OF THE CASE.

6. THE EMBASSY'S OFFER TO ASSIST IN ANY APPROPRIATE WAY WAS DECLINED FOR THE PRESENT. EMBOFF REINFORCED KELLOGG'S DESIRE TO AVOID FURTHER CONTROVERSY BY ADVISING THAT NO STATEMENTS BE MADE TO THE PRESS WHICH COULD ONLY SERVE TO CAST THEM IN ROLE ANTAGONISTIC TO GOVERNMENT. REPRESENTATIVES SAID THEY WOULD KEEP EMBASSY APPRISED OF DEVELOPMENTS.

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